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REPORT NO. 5

Meeting Future Needs for Softwood Lumber and Plywood

A FOREST SERVICE REPORT

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MEETING FUTURE NEEDS FOR SOFTWOOD LUMBER AND PLYWOOD

The Housing and Urban Development Act of 1968 reaffirmed the National Goal of providing a decent home and a suitable living environment for every American family. The goals established in this Act provided for 26 million housing units to be built or rehabilitated over the ensuing 10-year period. Meeting this goal will require an average of 2.5 million new housing starts each year, a substantial increase over the 1.5 million new housing starts of 1968.

To date, the annual level of new housing starts has been considerably below the 2.5 million level, primarily due to high interest rates. However, as money become more easily available and new housing starts trend upward, available supplies of softwood lumber and plywood will become a principal factor in meeting housing goals. If these supplies are to be readily available at reasonable price levels, it is apparent that forest growth and yield must be increased from the Nation's forest lands.

There have been several proposals made by the government and private industry as to how these increased timber yields can best be attained. The most recent are the findings and recommendations in the report of the Task Force on Softwood Lumber and Plywood of the Cabinet Committee on Economic Policy, which was released by President Nixon on June 19, 1970.

Following is a brief report on the various proposals, findings, and recommendations that have been made and their major provisions.

Appointment of Task Force on Softwood Lumber and Plywood by Cabinet Committee on Economic Policy

Prices of softwood lumber and plywood rose rapidly in 1968 and the first quarter of 1969. The Douglas Fir Monthly Lumber Price Index reached a peak of 130.23. It was widely proclaimed that these price increases were having a serious impact on the Nation's housing programs.

On March 7, 1969, the Cabinet Committee on Economic Policy appointed a Task Force on Softwood Lumber and Plywood to look into the causes of the rapid increases in prices and to find ways of increasing supplies of timber products.

The Task Force promptly focused its attention on the short-range problems and recommended a series of steps to alleviate the immediate price pressures. The steps recommended included: action by the Interstate Commerce Commission to relieve the rail boxcar shortage; requests to the Congress for supplemental appropriations for fiscal years 1969 and 1970 to increase the amounts of Federal timber available for sale under sustained yield principles; action by the Department of the Defense to exercise strict control over its procurement of softwood products; and an informal approach by the State Department to the Japanese seeking to curtail log exports from the United States. These steps were approved by the White House on March 19, 1969.

In the following months, the prices of softwood lumber and plywood turned around sharply and by June of 1969 were only about 50 percent of the previous high prices. For example, the Douglas Fir Monthly Lumber Price Index which reached a peak of 130.23 in April (reflecting March prices) was down to 92.77 in July (June prices). One-quarter inch AD plywood which had been $144 per thousand sq. ft. in February was $62 for the same amount in June. Douglas Fir standard and better dry 2-by-4's were $153 per thousand bd. ft. in early March and down to $99 per thousand bd. ft. in June.

The price decline reflected a number of changes in market conditions in addition to the actions taken on March 19, 1969, especially the decline in housing construction brought on by tight money and high interest rates. In late 1969 and early 1970 economic activity in the major timber products markets was generally downward, still reflecting the down trend in housing construction where more than a third of all lumber and plywood is consumed. In the longrun, however, the outlook for timber products markets is one of continued and rapid growth as industrial production and construction turn upward.

Forest Service Participation on Task Force

The Task Force next turned its attention to the long-range situation with the objective of insuring that the supply of softwood timber and its products would not impose serious constraints on meeting the Nation's housing goals. It was also concerned with avoiding extreme price fluctuations in the lumber and plywood industry such as those of 1968 and 1969.

As part of the work of the Task Force, the Forest Service, U. S. Department of Agriculture, submitted a report on August 1, 1969, titled "Possibilities for Meeting Future Demands for Softwood Timber in the United States." Its purpose was to indicate actions on public and private lands that might be taken to alleviate the future long-range timber supply demand-price situation. The Report considered the potential demands for softwood

lumber and plywood products based on projections of growth in population; Gross National Product; disposable personal income and expenditures for construction; supplies that might be made available under different price levels and management inputs. It set forth various forestry program alternatives to provide increased supplies of softwood timber and dampen prospective increases in timber prices with full consideration of multiple use impacts and relationships.

Based on estimates of price elasticity caused by demand, the projections indicated that if forest management were intensified only as much as it had been in recent years, substantial increases in prices would result due to supply shortages. Up to 1980 supply and demand would be roughly in balance at the relatively high 1968 price levels, but beyond that year supplies would fall increasingly short of the projected demand and force prices still higher.

With possible accelerated funding for management on Federal, State and private forest lands, as outlined by the Forest Service in the "Possibilities" Report, projected demands could be met at prices below the 1968 level... about half way between 1968 prices and the lower prices of the 1962-67 period. Adoption of the accelerated program would thus meet potential timber demands over the next couple of decades without a sizeable increase in prices of timber products.

The Timber Supply Bills

Other reactions to the rapid increases in the prices in 1968 and 1969 included hearings by the Banking and Currency Committees in both the Senate and the House and the introduction of S. 1832, the National Timber Supply Act of 1969 on April 18, 1969, and an identical bill, H.R. 10344, on April 21, 1969. Both bills called for increasing the timber yield from the National Forests and revision of annual allowable cuts. To provide a source of funds for increasing the timber yield, National Forest timber receipts were to be credited to a "high timber yield fund" beginning July 1, 1969, and ending June 30, 1994. These monies were to be used for increasing timber yields through intensified forest management. Funds were to be allocated proportionately to each National Forest based on the contribution it had made to the fund.

A modified version of the Timber Supply Bill (H.R. 12025) was reported by the House Agriculture Committee. This bill incorporated a number of changes such as the Forest Service suggestion for amendment to provide specifically that intensified timber management activities on the National Forests would be in full accord with the Multiple Use-Sustained Yield Act of June 12, 1960. This modified bill was endorsed by the Administration.

On February 26, 1970, the House voted not to consider this bill.

The Task Force Report

On June 19, 1970, President Nixon released to the public the Report of the Task Force on Softwood Lumber and Plywood of the Cabinet Committee on Economic Policy. Briefly, the findings of the Task Force were that a substantial increase in the supply of softwood timber products and substitute materials will be needed to meet the Nation's goal of providing adequate housing for all our people by the end of this decade. The Report stressed that while this increase in supply can be met, it must be achieved in a manner consistent with the preservation and enhancement of the quality of our environment, and will require (1) the cut from other than Federal lands to respond as anticipated; (2) a substantial increase in imports, and (3) adequate substitutes at reasonable prices as well as (4) increased harvest from the Federal forests.

The President's Statement

In releasing the Report, the President directed that prompt initial steps be taken to implement certain recommendations of the Task Force. These steps are:

"1. The Secretaries of Agriculture and Interior should formulate plans to improve the level and quality of management of forest lands under their jurisdiction in order to permit increased harvest of softwood timber consistent with sustained yield, environmental quality and multiple use objectives. As recommended by the Task Force, such plans should take cognizance of the increased requirements for timber to meet our housing goals. They should be developed in consultation with the Council on Environmental Quality with the aim of not only protecting but also enhancing the quality of the environment in our forest lands. Any additional funding required for the execution of these plans will be reviewed by the Bureau of the Budget in relation to overall national priorities.

2. In determining the level of timber to be offered for sale in any given year, the Secretaries of Agriculture and Interior should provide reasonable flexibility to take account of anticipated swings in demand. Such adjustment may be upward or downward, and would be compensated as promptly as feasible to keep within the constraints of long-term sustained yield objectives.

3. The Secretary of Agriculture should press ahead with the development of programs designed to increase the production and harvesting of timber on State and private lands, consistent with maintaining environmental quality.

4. The Secretary of Housing and Urban Development, in cooperation with the Secretaries of Agriculture and Commerce, should continue the development of programs and standards looking toward improved and more economical wood products utilization, including encouragement of the development and utilization of substitute materials."

The President also directed that "the necessary steps be taken to select a panel of outstanding citizens, persons of outstanding ability and broad experience with no ties or commitments that might prejudice objective judgment, to study the entire range of problems involved in ensuring that the achievement of our housing goals is not constrained by an inadequate supply of softwood lumber and plywood, while fully protecting and enhancing the quality of our environment."

Since its release there has been some misunderstanding of the Task Force Report. Some comment, for example, has been to the effect that the recommendations of the Task Force and the action directed by the President were an attempt to do by administrative means what Congress had refused to do legislatively. This refers to the vote by the House of Representatives on February 26, 1970 to not allow debate on the proposed timber supply bill (H.R. 12025). It had been alleged that this bill (and earlier bills S. 1832 and H.R. 10344) would have directed an increased timber cut from the National Forests in disregard of the principle of sustained yield. Now, some feel that the recommendations of the Task Force Report will do the same thing. However, a review of the Report shows that this is not the case. The Task Force Report proposes substantial, additional activities not included in the Timber Supply Bills and contains specific commitments to multiple use, environmental quality and sustained yield objectives.

The Task Force Report gives full recognition to the fact the Forest Service has been directed by Congress to provide for the conservation of all National Forest resources, and that in seeking to meet the Nation's need for timber, it must do so within the context of the Multiple Use-Sustained Yield Act of 1960 and the National Environmental Policy Act of 1969.

Differences Between Timber Supply Bills and The Task Force Report

There are several differences between the recently proposed Timber Supply legislation and the recommendations of the Task Force, as follows:

1. --The recommendations of the Task Force and the directed action by the President made it clear that any increase in timber harvest from forest lands under Federal jurisdiction would be permitted only following formulation of plans to improve the level and quality of management of these lands. The President further directed that such plans should be developed in consultation with the Council on Environmental Quality.

--The Timber Supply Bills had no specific provisions for environmental protection.

2. --The Task Force recommended steps to increase timber supplies from State and private lands--especially the latter. The President directed the Secretary of Agriculture to press ahead with the development of programs designed to increase the production and harvesting of timber in State and private lands, consistent with maintaining environmental quality.

--The original Timber Supply Bills were concerned only with increasing timber supplies from the National Forests. The later version, H. R. 12025, however, did call for development of a cooperative State and private forestry program.

3. --The President directed the Secretary of Housing and Urban Development, in cooperation with the Secretaries of Agriculture and Commerce, to continue the development of programs and standards for better wood products utilization, including encouragement of the development and utilization of substitute materials.

--The proposed Timber Supply Bills contained no specific commitment to research efforts in product utilization and the development of substitute materials.

4. --The President directed the Secretary of the Interior as well as the Secretary of Agriculture to make plans to improve the level and quality of management of forest lands under their jurisdiction and provide flexibility for anticipated swings in demands when determining timber sales for any given year.

--The Timber Supply Bills made no reference to forest lands under the jurisdiction of the Department of the Interior.

5. --The action directed by the President would utilize existing appropriation authorities to intensify National Forest management activities, as determined necessary by the Bureau of the Budget in relation to overall national priorities.

--The Timber Supply Bills would have funded specific timber activities from a High Timber Yield Fund based on contributions of each forest from timber receipts.

6. --The President directed that a panel of outstanding citizens be invited to study the entire range of problems involved in ensuring that the achievement of our housing goals is not constrained by an inadequate supply of softwood lumber and plywood, while fully protecting and enhancing the quality of our environment. Such a panel would be composed of persons of outstanding ability and broad experience, with no ties or commitments that might prejudice objective judgment.

--The proposed Timber Supply Bills provided for no such action.

Balancing the Needs

The Task Force findings emphasized the very real need of the Nation for increased supplies of softwood timber. They also stressed the need that these supplies be increased under provisions which will at the same time protect and enhance the quality of the environment and which will continue application of multiple use and sustained yield management of the National Forests.

On the one hand a very real timber supply crisis will soon face the Nation unless action to increase supplies is taken now. The Housing and Urban Development Act of 1968 reaffirmed as a national goal "a decent home and a suitable environment for every American family." Under this goal, 26 million housing units are to be constructed or rehabilitated by 1978. If this goal is to be met, construction materials must be available to provide housing at prices the American public can afford to pay. Uses of softwood lumber and plywood, including nonhousing construction, packaging, and pulpwood, may be expected to continue to grow as the economy expands. If this indicated demand is to be met, it means that softwood supplies will have to be increased by over 25 percent by 1975.

The Forest Service has consistently maintained that it could increase sustained yield timber harvest on the National Forests without detriment to the forest environment if it had funds available for intensified forestry management practices. "Intensified" or "accelerated" management includes: timber stand improvement; commercial thinning and salvage; planting or seeding of productive sites; increased protection from fire, insects, disease, and other destructive agents; closer utilization of timber in the woods and in manufacturing plants; increased road access; and greater research and development efforts to provide knowledge needed for more efficient management of forest resources and improved technology in the wood-using industries.

On the other hand, conservationists and others have in recent years claimed that even the present rate of timber harvest on the National Forests is excessive and damaging to the environment. They do not believe that intensified forest management practices will permit more timber removal without excessive impact on other forest resources.

The Forest Service has met with increasing criticism of its timber harvesting practices and increasing public concern over its management of the National Forest System. Much of the current public concern exists, in part, because the National Forest System program has emphasized some activities, timber harvesting especially, more than others. In fact, the single greatest source of present day concern of the public stems from what it believes is the

increasing emphasis on timber production from the National Forests. As evidence of this, it points to not only the accelerated timber cutting over the years but also to the relative priority of financing for timber-associated programs as compared with other National Forest multiple use activities. Consequently, some of the public see in the Report of the Task Force on Softwood Lumber and Plywood and also in the actions directed by the President to implement this report, merely more emphasis on timber cutting. And, they believe timber cutting is receiving too much emphasis as it is.

The Forest Service realizes that the National Forest management program is presently out of balance. The public will be increasingly unhappy until there is balance and quality in Forest Service programs and a greater degree of public involvement in Forest Service decisions.

A new Forest Service Program for the 1970's is presently in the process of preparation. The program will encompass a variety of activities which aim to be in better balance with each other and with the resource capabilities. Before this program is put into final form, opportunity for public review and advice will be provided. This is a vital step in implementing the Forest Service objectives and policy statement issued early in 1970 as "Framework for the Future."

The Forest Service takes seriously the President's endorsement of the findings of the Task Force on Softwood Lumber and Plywood. It wants to be fully responsive to all the various demands on our forest resources and to do things the President has directed it to do within the limits of funding and manpower. At the same time, it must achieve a better balance in National Forest management programs. If timber, road, and structural improvement programs are accelerated, programs such as wildlife, watershed, recreation, and pollution control programs must also be increased.

However, the Forest Service believes that with the adequate funding necessary for an early application of intensified and balanced forest management programs, the needs of the Nation for softwood timber during the 1970's can be met--without damage to environmental quality and with concern for all forest resources.

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QUESTIONS AND ANSWERS

Q. What was the basic finding of the Task Force on Softwood Lumber and Plywood of the Cabinet Committee on Economic Policy?

A. The Task Force found that a substantial increase in the supply of softwood timber products will be needed to meet the Nation's growing requirements, especially in order to attain the goal of providing adequate housing for all our people by the end of this decade. It stressed that increases in supply can and must be achieved in a manner consistent with the preservation and enhancement of the environment.

Q. Why was the Report, and the President's action to increase the timber yield, released at a time when both the home construction and the western wood industries are in a period of slump?

A. Increasing timber yield is a long-term effort, which cannot be done overnight. Improved management, including timber stand improvement, thinning and planting, salvage protection, and research to increase timber growth and improve timber utilization, must occur prior to increased yield. These programs take time to accomplish and must be started now to meet a projected demand for all timber products of over 18 billion cubic feet in 1985--up from 13 million cubic feet per year at present.

Q. How significant are the National Forests in the total national lumber and plywood situation?

A. The Nation has about 510 million acres of commercial forest in all ownerships. Nearly 19 percent, or 97 million acres, of the total commercial forest land is in the National Forests. These Forests contribute about 20 percent of the current sawtimber growth and about 30 percent of the current harvest of softwood sawtimber in the Nation. A little more than half of the total inventory of softwood sawtimber is located on National Forests, chiefly in the West.

Q. Did the action the President directed to be taken on June 19 to implement certain recommendations of the Task Force on Softwood Lumber and Plywood merely do, in effect, what passage of the Timber Supply Bill would have done?

A. No, it did not. The recommendations of the Task Force and the action directed by the President went beyond merely increasing the immediate timber yield on the National Forests, which was the aim of the Timber Supply Bill. The recommendations emphasized that any increase in timber harvest on the National Forests would be done only under strict provisions to protect and enhance the environment. The President directed that any plans to increase timber cut should be developed in consultation with the Council on Environmental Quality. In addition, the Task Force recommended steps to increase timber production and harvesting on State and private forest lands, as well as research for better wood products utilization, including the development of substitute materials.

Q. How can an increased harvest of timber from Federal forest land be obtained which is consistent with sustained yield, environmental quality, and multiple use objectives?

A. Timber harvest can be increased consistent with these objectives if an improved management and research program is put into effect first. This means needed accomplishments in construction of access roads, improved inventories, improved utilization, more thinning and salvage, more effective protection of forests from fire, insects and diseases, and reforestation and timber stand improvement. For example, at present on on National Forest lands there is a backlog of 4.8 million acres in need of reforestation and over 13 million acres of young timber stands needing thinning or release. Accomplishment of this backlog of work could produce an increase in timber harvests of some 5 billion board feet annually.

The Forest Service has consistently maintained that improved management must come prior to or concurrently with increased harvest, not after. This would, of course, require adequate funding for the development of a balanced program on the National Forests.

Q. Why doesn't the Forest Service put into effect immediately an improved management program, if this is what is needed?

A. Because at present, the Forest Service does not have funds available to do the needed work. For example, it would cost nearly $900 million to accomplish just the needed backlog of reforestation and stand improvement mentioned previously. However, the President has directed the Bureau of the Budget to review additional funding required for execution of plans to improve the level and quality of management of Federal forest lands, in relation to overall national priorities.

Q. How real is the need to increase the Nation's timber yield?

A. Very real. Projected increases in population, economic activity and income indicate that within a relatively short time housing starts will show a major rise. By mid-1970's new household formations may well reach 1.4 million a year--some 500,000 above the average in the 1960-65 period. New families need housing. Replacement and reconstruction of existing dwelling units is also likely to expand rapidly in an increasingly wealthy economy. The Housing and Urban Development Act of 1968 set a goal of providing 26 million housing units, either new or rehabilitated, by 1978. If this goal is going to be approximated, total housing starts will have to be about 2.5 million per year by the mid-seventies. In addition, more than half of our softwood timber will continue to go to other uses--non-housing construction, packaging, pulpwood, for example. Consumption for these other uses may be expected to continue to grow as the economy expands.

All these factors indicate that there will be a very rapid growth in construction and industrial outputs which are the chief determinants of the demand for industrial raw materials, including timber. If this indicated demand is to be met, timber supplies will have to be increased by between 10 and 13 billion board feet between 1970 and 1975, or by 20 to 25 percent, with some continuing growth thereafter.

Q. What does the Forest Service predict will result if present forest management practices are intensified only as much as recent trends?

A. Indications are that with such forest management a balance between supplies and demands can be achieved only with substantial increases in prices or increased use of substitute materials. The Task Force found that up to

1980 supply and demand would be roughly in balance at the relatively high 1968 price level, but beyond that year supplies would fall increasingly short of demand even at those prices.

Q. Can the demand for timber supplies be met with improved management?

A. Forest Service studies indicate that if an intensified management program is adopted at once, most of the potential timber demands over the next two decades can be met without a significant increase in timber prices due to supply; that is, at prices about half way between those prevailing in the 1962-67 period and the late 1968 high price level. Intensified management would include provisions which would protect and enhance the environment.

Q. The Forest Service has prepared a report on "Possibilities for Meeting Demands for Softwood Timber in the United States." Has it also prepared plans for meeting the demands on other forest resources, such as water, wildlife, and recreation?

A. The Forest Service is currently working on a proposed Program for the Seventies. It will include proposals for meeting specific goals for all major forest resource values. The timber management "Possibilities" plan was developed as part of the overall program.

Q. Does the need for improved management and research pertain to Federal forest lands only?

A. No, projections indicate that there must also be intensified management of private forest lands, including the nonindustrial lands. In his June statement, the President directed the Secretary of Agriculture to press ahead with the development of programs designed to increase the production and harvesting of timber on State and private lands consistent with maintaining environmental quality. Secretary Hardin on July 20 named a 15-member Advisory Committee on State and Private Forestry to advise the Department at the Federal level on major matters relating to the protection, management and development of the Nation's 368 million acres of privately owned forest lands and resources.

Q. Is there also a need for intensified forestry research?

A. Yes, research must make significant contributions toward increasing timber supplies by inventing new technology for extending supplies and discovering new ways to reduce the cost of timber protection if supply is to meet demand. The possibilities for meeting demand include research on resource development and protection, manufacturing and use, forest economics, and resource analysis.

Q. Can use of wood substitutes be increased as a means of stretching lumber supplies?

A. Wood substitutes are available at present and can be increasingly utilized for housing construction. Substitutes in types of housing, such as use of mobile homes and shifts to multi-family homes, will reduce the amounts of lumber required and increase the amounts of aluminum, other metals, concrete, etc., used. However, at present there are limitations in the building codes on extensive utilization of wood substitutes. The Task Force declared that progress toward economizing on timber use through improved wood products utilization, more flexible design standards, and development of satisfactory and economical wood substitutes is essential. One of the actions directed by the President was that programs and standards looking toward improved and more economical wood products utilization, including substitute materials, should be continued and encouraged.

Lumber is still a preferred building material because of its flexibility and its familiarity. Satisfactory and available substitutes, and the freedom to utilize these substitutes without unreasonable institutional and legal constraints, are required in order for wood substitutes to have a significant impact on the price of softwood lumber.

Q. What effect do log exports to Japan have on the availability of lumber supplies in this country?

A. A nominal effect only. Although this country does export some logs to Japan, it imports far more forest products, mostly from British Columbia, Canada. The volume of lumber, pulp, newsprint, and other materials that we import is more than twice the volume we export. It is possible that if we cut off log exports to Japan, that country would begin buying more logs from Canada, which would in turn have an effect on the availability and price of wood products imported to the United States from Canada.

In the long run, unrestricted international trade, of which log shipments is a part, is beneficial to the Nation as a whole. Moreover, log exports earn foreign exchange and thus help meet the balance of payments problem which at present is quite serious. The United States cannot establish trade barriers without expecting retaliation from other countries and, in fact, would violate the General Agreement on Tariff and Trade (GATT) by doing so.

Q. Can the increased need for wood and wood products be met by increasing imports?

A. Increasing imports will not meet the entire need for wood and wood products, but it can help. If supply and demand are to be in approximate balance at prices near those prevailing in the July-August 1969 period, there must be a substantial increase in imports as well as an increased cut from non-Federal timberlands and adequate substitutes available at reasonable prices--all in addition to increased harvest from the Federal timberlands.

Most of the increase in imports must come from British Columbia. We have discussed the situation with authorities from that Province and there is every reason to believe that the cut in British Columbia can be increased very substantially and that a large part of the increase will be exported to the United States, especially if price conditions are favorable.

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